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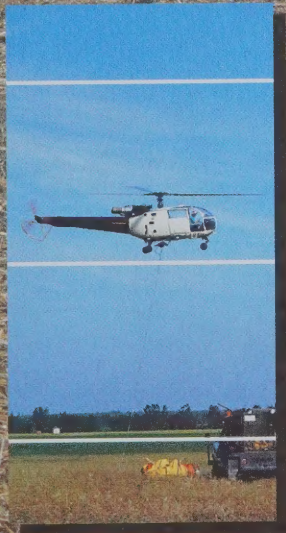
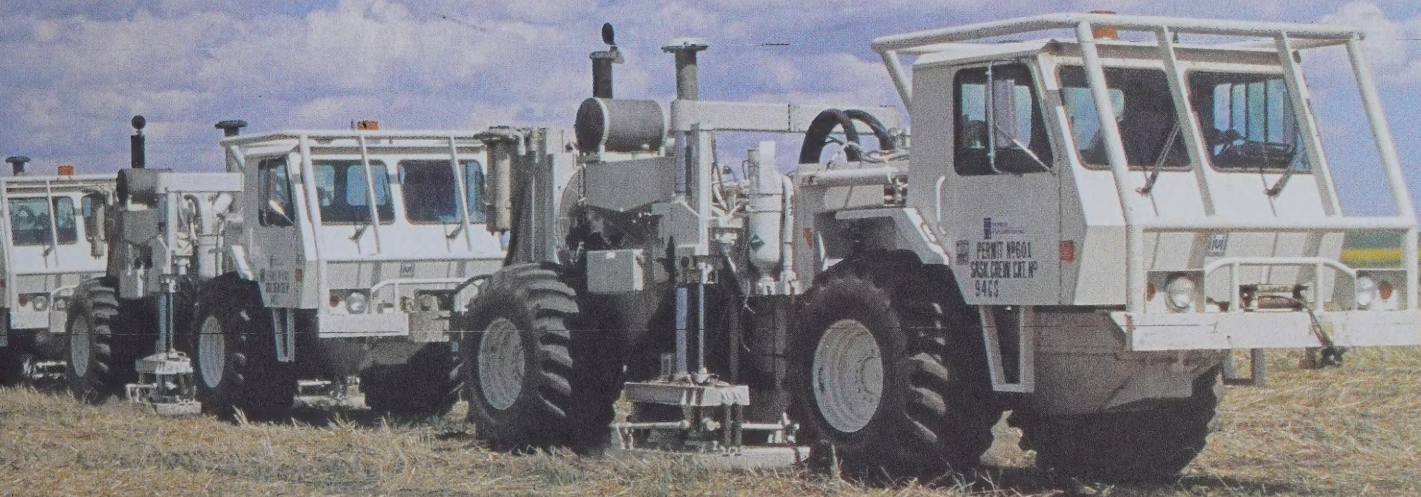
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University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R8



PIONEER GEOPHYSICAL SERVICES INC.

(formerly PIC Capital Inc.)

*Annual
Report
1994*





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From left,
Gordon J. Peters,
Marinus J. Snyders,
Donald J. Good

Corporate Profile

Pioneer Geophysical Services Inc. is a Canadian owned, publicly-traded company, based in Calgary and engaged in the acquisition of seismic data for oil and gas companies. The seismic process is an imaging technique, whereby high energy sound waves sent into the Earth are echoed back, recorded and used to delineate geological features, which are analyzed for potential oil and gas locations.

Operating state of the art equipment in Western Canada, Pioneer has been in operation for 11 years, serving over 100 clients from the junior, intermediate and senior sectors of the oil business. The cyclical nature of the oil industry and the resultant demand for seismic acquisition services poses a continual challenge for companies in this industry and Pioneer's success comes from its ability to meet these changing needs, through leading edge technology and experienced staff.

In its first year of operation as a public company, Pioneer has experienced dramatic growth in activity and performance and, through its financial and operational strength, is now positioned to address the future requirements of the domestic market, as well as the entry into International arenas. Skilled personnel and a dedication to customer service will help ensure the company's future growth.

Comparative Information

(thousands of dollars except per share data)

Year Ended July 31

	1994	1993
Revenue	29,042	9,128
Cash Flow from Operations	2,691	255
Cash Flow per Common Share	0.22	0.03
Net Earnings from Operations	1,258	257
Net Earnings per Common Share	0.103	0.025
Long Term Debt	1,511	1,696
Shareholders Equity	1,729	362
Weighted Average Number of Common Shares Outstanding	12,245,901	10,185,052



Vibroseis crew operating near Vulcan, Alberta



Donald J. Good
President and
Chief Executive Officer

On behalf of the Board of Directors, I am pleased to present the Annual Report of Pioneer Geophysical Services Inc. for the fiscal year ended July 31, 1994.

Fiscal 1994 marked the first year of operation for Pioneer as a public company. A key player in the industry for over ten years, with a broadly diversified client base, the Company embarked on a new corporate

course with the sale of shares of Pioneer Exploration Inc. and Sei-Trac Rentals Inc. to PIC Capital Inc. in a reverse acquisition, resulting in the formation of Pioneer Geophysical Services Inc.

To the Shareholders

Pioneer has enjoyed over ten years, serving the oil industry in Western Canada. During this time, the Company has built and retained a diverse clientele within the community and continues to add new clients to its base. The seismic services industry is highly competitive in the Western Canada region and, as a result, attention to customer service is paramount to success. We are glad to say that the Company's diligence in this regard has resulted in continued repeat business.

Following rationalization in the oil industry in 1992, a resurgence of exploration activity occurred, allowing companies in the seismic services industry to experience a marked increase in production. In order to take advantage of this upturn, your Company has taken steps to refine its operations to provide for more efficient utilization of its resources.



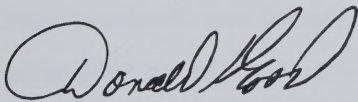
The demand for additional crews during the winter season resulted in capital additions of \$4,000,000 for equipment, financed by cash from operations and long term debt. The continued growth and prospects for future high activity levels has led the company to review its capital structure to improve the balance sheet and relieve pressure on working capital. As of this writing, the company has arranged an additional debt and equity issue which will help ensure the orderly future growth of the company.

In what is a capital intensive industry, minimizing costs and creating efficiencies is critical. With the purchase of leading edge recording systems and additional equipment, the Company is now positioned to meet industry demand for seismic acquisition in a more efficient and timely manner. The ability to offer state of the art equipment and acquisition methods along with technical expertise and strong management, will allow the company to remain a key participant in a highly competitive industry.

As we look toward 1995, we are encouraged by the activity levels in the industry in Western Canada and are confident in our abilities to meet whatever challenges the industry faces in the longer term. The seasonal nature of the seismic services industry domestically has led us to explore opportunities for diversification through International activities and involvement in other seismic-related services. As always, our dedication to superior technical quality and customer service will remain our major priority in our day-to-day activities, helping to ensure increased value for our shareholders.

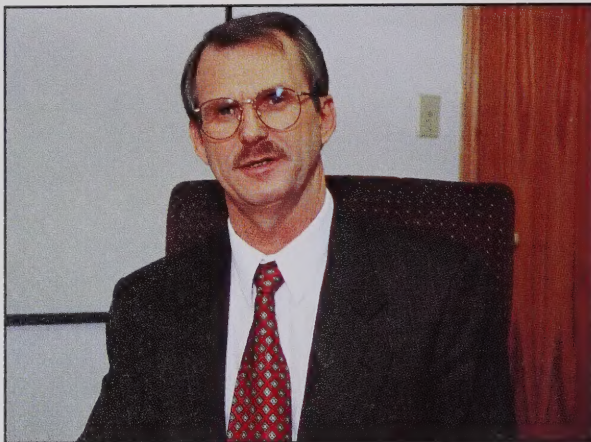
The past year has been one of great change and adjustment and I would particularly like to thank all of our employees, who have willingly contributed to the improvement of our operational and administrative activities.

On behalf of the Board of Directors



Donald J. Good
President and Chief Executive Officer
Calgary, Alberta
December 20, 1994





Marinus J. Snyders
*Vice-President,
Operations and Secretary*

The winter of 1994 marked a solid return to profitability for the seismic acquisition business, due to a sharp increase in Exploration activity within the oil industry.

To address the resurgence in seismic activity, the Company added two new leading edge recording crews, using ARAM24 distributed systems, to help meet the increasing demand for high quality data. Use

of these systems also resulted in more efficient operation and timely contract completion for the Company.

In addition, two of our existing dynamite crews were upgraded to DAS-1 systems, instrumentation used to record high resolution information which is particularly advantageous in shallow gas detection.

Operational Highlights

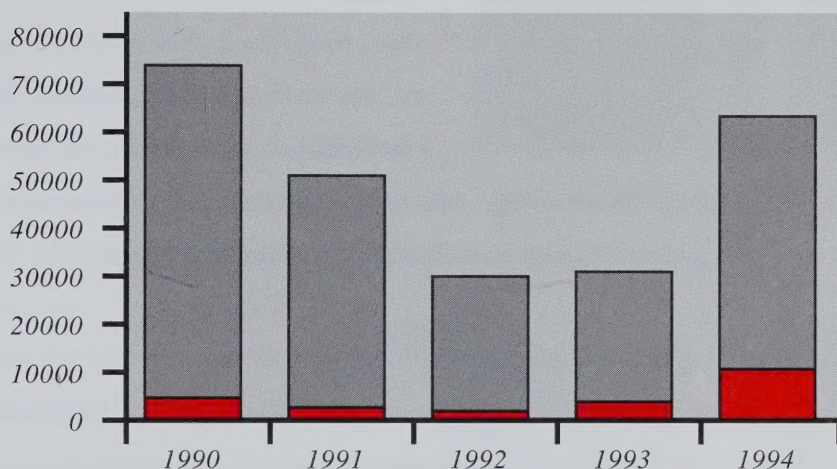
An additional vibroseis crew was added, rounding out the Company's capabilities to meet all current needs in the industry, this equipment being of the most advanced available, featuring real time GPS survey capability, for better accuracy and reduced time in the field.

During the year, the company continued to serve its long term existing client base, but at an increased production level, while adding new clients, including a major oil and gas company, for which large 3-D surveys were carried out in Northern Alberta and Northeast British Columbia. 3-D surveys represented approximately 30% of the total kilometers shot during the year.

Since 1990, the Company has experienced a steady level of production compared to the market in general, as shown by the diagram on the opposite page. Although overall activity declined in 1991 and 1992, the Company was able to maintain its historical market share, showing a sharp increase during 1993 and 1994, mainly due to increased capacity and an expansion of the type of services offered.

The total number of kilometers of seismic data collected during fiscal 1994 increased 200% over the same period in 1993, reflecting the increased industry activity as well as the Company's responsiveness to client demand.

Kilometers shot by Pioneer as a percentage of Total Western Canadian Acquisition



Source: CAGC

With new instrumentation, equipment and changing field methods comes the need to place increasing emphasis on personnel safety and training. The Company recognizes this need and we will continually strive to create an improved work environment for our field personnel.

As we head into 1995, we feel confident in our technology, our strong personnel and our organizational abilities to continue to provide seismic acquisition services of superior quality to our valued client base. We will continue to seek new markets both domestically and internationally while maintaining our commitment to serving our customers at the highest possible level.



Gordon J. Peters
Vice-President, Finance and
Chief Financial Officer

Overview

Financial results in our first year of operation as a public company show significant improvement over fiscal 1993. As a result of renewed activity levels in oil exploration during the fall and winter of 1993, the company was able to show a marked increase in revenues for its fiscal 1994 period. An increase in crew count to meet the expanded volume of work available was funded from cash flow from operations and long

term debt. A review of the company's capital structure is underway to provide better financial stability and position the company for future growth.

Management's Discussion & Analysis of Financial Condition

Results of Operations

A comparison of results for fiscal 1994 and fiscal 1993 are shown below:

	1994	1993
Revenue (thousands of dollars)	29,042	9,128
As Percent (%) of Revenues:		
Gross Profit	17.4	19.1
G&A	4.1	6.3
Earnings before Interest and Taxes	10.0	6.3
Earnings before Taxes	8.0	3.1
Net Income	4.3	2.8

Revenues increased 218% in 1994 compared to 1993 as the Corporation capitalized on an increase in demand for seismic data acquisition by doubling its crew count from three to six and by purchasing new equipment as well as upgrading existing hardware.

Gross Profit in 1994 declined to 17.4% from 19.1% in 1993, due to increased business levels experienced by the Corporation, which necessitated the short term renting of additional equipment in order to meet client demand.

General and Administrative Expenses primarily consist of management and office salaries, rent, advertising, professional fees and other office expenses. G&A expenses for the year represented an increase of 111% over the same period in 1993 as a result of increased staffing levels and additional costs related to the activities associated with becoming a public company. As a percentage of revenue, G&A declined from 6.3% in 1993 to 4.1% in 1994. Pioneer's small, focused management team has delivered administration at levels significantly lower than its public company peer group.

Depreciation. The Company depreciates its capital assets over their useful life on a straight line basis, similar to other companies in the industry. Seismic equipment is depreciated over seven years, while other equipment is depreciated over a three to five year period. Depreciation expense for 1994 increased by \$368,000 or 62% as a direct result of the purchase of \$3,875,000 in new equipment during the year.

Interest Expense. The Company's interest expense is directly related to levels of capital expenditure on seismic equipment and vehicles plus changes in the prime rate of interest. It has been the company's policy to minimize long term debt and match asset life with the corresponding debt. As well, a large portion of the Company's cash flow from operations has been invested in capital assets. Interest expenses have declined gradually from fiscal 1991 to fiscal 1994. In 1994, interest expense was 9% lower than in 1993. Levels of interest expense are also directly related to the total outstanding long term debt of the Company. Long term debt has declined since 1992 with levels being 12% lower in 1994 than in 1993. In 1994, the Company leased certain equipment necessary to conduct its operations, resulting in an interest expense of \$38,000 on capital lease obligations of \$533,000.

Net Income. Net Income increased by \$0.08 per share as compared with the prior year, after providing for corporate taxes at the new public company rate of 46.5%

Liquidity and Capital Resources

As at July 31, 1994, the Company had in place a credit facility comprised of \$1,900,000 of demand term loans, \$149,000 of vendor financing and an operating line of credit in the amount of up to \$3,500,000. The Company uses these debt facilities provided by its principal lender as required. Since 1990, the Company has generated approximately \$3,700,000 in cash flow from operations, which it has used in its ongoing business, and has made investments of approximately \$7,000,000 in new technology and equipment upgrades.

The Company has entered into a commitment letter with its principal lender to provide a new credit facility to replace the existing facilities described above. These new facilities will consist of a \$4,000,000 revolving line of credit and a \$6,500,000 demand term facility. Additionally, a common share underwriting is presently underway to net an additional \$2,936,000 in shareholder's equity.

In 1994, the Company had a capital budget of \$4,000,000 which was satisfied through cash flow from operations of \$2,700,000 with the remainder being financed by available credit facilities.

Continued seismic exploration activity is anticipated in the near term, which should result in a more stable working capital picture for the company. Diversification opportunities currently under investigation, should help reduce the risks inherent in this industry, namely unpredictable weather conditions, the seasonal nature of the domestic market and regulatory and political changes.

Outlook

The company has experienced significant growth during the past year, gaining market share by increasing its crew count and upgrading its equipment. The outlook for seismic activity domestically looks positive in the near term and the company is positioned both operationally and financially to take advantage of this. Continued effort is underway to investigate opportunities for entry into International markets in order to diversify our business. Other areas of the seismic services industry also provide a means to reduce risk through diversification and these too are being investigated as future growth areas for the company.

Based upon booked work for the upcoming season, Pioneer management anticipates gross revenues to increase to approximately \$45,000,000. Improvements in operational efficiencies, plus the increased sales levels, are forecast to provide a further increase in earnings per share to approximately \$0.17 on a fully diluted basis.

Auditors' Report

*To the Shareholders
Pioneer Geophysical Services Inc.
(formerly PIC Capital Inc.)*

We have audited the consolidated balance sheet of Pioneer Geophysical Services Inc. (formerly PIC Capital Inc.) as at July 31, 1994 and the consolidated statements of income, retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1994 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles.

The figures for July 31, 1993, included for comparative purposes, are based on financial statements for this year which were reported on by another chartered accountant.

Colleen Barron

Chartered Accountants

*Calgary, Alberta
September 13, 1994*

PIONEER GEOPHYSICAL SERVICES INC.

(formerly PIC Capital Inc.)

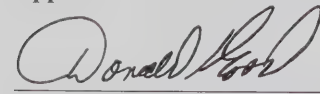
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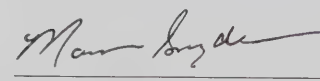
Consolidated Balance Sheet

July 31, 1994

	1994	1993 (restated)
ASSETS		
Current Assets		
Accounts receivable	\$ 4,595,040	\$ 1,745,631
Inventory (note 4)	331,616	291,448
Prepaid expenses	89,158	154,484
	<u>5,015,814</u>	<u>2,191,563</u>
Investments (note 5)	66,905	132,243
Capital Assets (note 6)	4,940,206	2,021,437
Other Assets (note 7)	81,356	66,596
	<u>\$ 10,104,281</u>	<u>\$ 4,411,839</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness (note 8)	\$ 1,759,480	\$ 733,496
Accounts payable and accrued liabilities	2,900,504	885,053
Income taxes payable	892,632	-
Current portion of long-term debt	953,301	646,302
Current portion of obligations under capital leases	133,239	-
	<u>6,639,156</u>	<u>2,264,851</u>
Long-Term Debt (note 9)	1,110,359	1,696,377
Obligations Under Capital Leases (note 10)	400,436	-
Due to Shareholders	-	34,177
Deferred Income Taxes	224,556	53,727
	<u>8,374,507</u>	<u>4,049,132</u>
SHAREHOLDERS' EQUITY		
Share Capital (note 11)	669,245	560,700
Retained Earnings (Deficit)	1,060,529	(197,993)
	<u>1,729,774</u>	<u>362,707</u>
	<u>\$ 10,104,281</u>	<u>\$ 4,411,839</u>

Approved on behalf of the Board,

 Director

 Director

PIONEER GEOPHYSICAL SERVICES INC.

(formerly PIC Capital Inc.)

Consolidated Statement of Income

Year Ended July 31, 1994

	1994	1993 (restated)
Revenue		
Contract revenue	\$ 29,042,415	\$ 9,128,976
Operating expenses	<u>23,980,316</u>	<u>7,384,809</u>
Gross Profit	<u>5,062,099</u>	<u>1,744,167</u>
Expenses		
General and administrative	1,203,133	571,264
Interest	115,949	72,178
Interest on long-term debt	204,763	224,063
Interest on obligations under capital leases	37,926	-
Depreciation and amortization	<u>965,878</u>	<u>598,403</u>
	<u>2,527,649</u>	<u>1,465,908</u>
Income from Operations	<u>2,534,450</u>	<u>278,259</u>
Write-Down of Investments	(226,306)	-
Gain on Disposal of Capital Assets	<u>13,964</u>	<u>2,382</u>
	<u>(212,342)</u>	<u>2,382</u>
Income Before Income Taxes	<u>2,322,108</u>	<u>280,641</u>
Income Taxes (note 12)		
- current	892,757	7,380
- deferred	<u>170,829</u>	<u>15,741</u>
	<u>1,063,586</u>	<u>23,121</u>
Net Income	<u>\$ 1,258,522</u>	<u>\$ 257,520</u>
Net Income Per Share [note 11 (h)]	<u>\$ 0.103</u>	<u>\$ 0.025</u>

PIONEER GEOPHYSICAL SERVICES INC.

(formerly PIC Capital Inc.)

Consolidated Statement of Retained Earnings

Year Ended July 31, 1994

	1994	1993 (restated)
Retained Earnings, Beginning of Year		
As previously reported	\$ 1,048,538	\$ 448,097
Change in accounting policy (note 13)	<u>(1,246,531)</u>	<u>(903,610)</u>
Deficit, as restated	(197,993)	(455,513)
Net Income	<u>1,258,522</u>	<u>257,520</u>
Retained Earnings (Deficit), End of Year	<u>\$ 1,060,529</u>	<u>\$ (197,993)</u>

PIONEER GEOPHYSICAL SERVICES INC.

(formerly PIC Capital Inc.)

Consolidated Statement of Cash Flow

Year Ended July 31, 1994

	1994	1993 (restated)
Cash Provided by (used in)		
Operating activities		
Net income	\$ 1,258,522	\$ 257,520
Items not affecting cash		
Depreciation and amortization	965,878	598,403
Gain on disposal of capital assets	(13,964)	(2,382)
Write-down of investments	226,306	-
Deferred income taxes	170,829	15,741
Change in non-cash working capital	83,832	(614,067)
	<u>2,691,403</u>	<u>255,215</u>
Financing activities		
Proceeds from capital leases	609,627	-
Repayment of capital leases	(75,952)	-
Proceeds on long-term debt	886,350	-
Repayment of long-term debt	(1,165,369)	(208,697)
Shares issued for cash	170,000	-
	<u>424,656</u>	<u>(208,697)</u>
Investing activities		
Purchase of capital assets	(3,875,493)	(337,929)
Proceeds on disposal of capital assets	37,600	-
Proceeds on disposal of investments	-	80,129
Increase in restructuring costs	(47,550)	-
Additions to investments	(222,423)	-
Repayment of amounts due to shareholders	(34,177)	-
	<u>(4,142,043)</u>	<u>(257,800)</u>
Cash Outflow	(1,025,984)	(211,282)
Bank Indebtedness, Beginning of Year	(733,496)	(522,214)
Bank Indebtedness, End of Year	\$ (1,759,480)	\$ (733,496)

Notes to Consolidated Financial Statements

July 31, 1994

1. Business Combination

Pursuant to at Plan Share Exchange agreement effective November 1, 1993, Pioneer Geophysical Services Inc. (formerly PIC Capital Inc.) ('PIC') issued 10,185,052 shares (representing 80% of the issued share capital of PIC) to the shareholders of Pioneer Exploration Inc. ('PEI') and Sei-Trac Rentals Inc. ('S-T') in exchange for all the issued and outstanding shares of PEI and S-T. PEI and S-T were formerly controlled under a common group of shareholders. As a result, PEI and S-T have been combined since inception under the pooling method for business combination to form one economic entity ('Pioneer') which acquired PIC. In accordance with the Canadian Institute of Chartered Accountants pronouncement, the business combination had been accounted for as a reverse take-over by the purchase method. In accordance with reverse take-over accounting, these financial statements are the continuation of Pioneer, and the comparative period presented is that of the Pioneer. However, the capital structure (authorized shares and issued shares) of the company is that of PIC and the other components of the shareholders' equity is that of the Pioneer. The results of operations of PIC are included in the accounts from the effective date of the acquisition. At the date of acquisition, PIC had nominal assets and liabilities.

2. Nature of Operations

Pioneer Geophysical Services Inc. (formerly PIC Capital Inc.) prior to the business combination was an inactive company. Pioneer Exploration Inc. is in the seismic contracting industry and operates in Western Canada. Sei-Trac Rentals Inc. holds seismic rental equipment which it leases exclusively to Pioneer Exploration Inc. The rental income and expense is eliminated on consolidation.

3. Significant Accounting Policies

(a) Consolidation

These financial statements include the accounts of the company and its two wholly-owned subsidiaries, Pioneer Exploration Inc. and Sei-Trac Rentals Inc.

For accounting purposes, the Pioneer is considered to be the parent company and PIC is the subsidiary company as described in note 1.

(b) Inventory

Inventory of spare parts is recorded at the lower of cost and net realizable value as determined on a first-in, first-out basis. Work-in-progress consists of direct costs associated with a seismic contract.

(c) Revenue Recognition

Revenue from a seismic contract is recognized on the completion of the contract.

(d) Investment in Seismic Data

Investment in seismic data is recorded at the lower of cost and estimated net realizable value. Proceeds from sale of this seismic data reduce the investment first, any excess over cost is recorded as income.

(e) Marketable Securities

Marketable securities held as a long-term investment are recorded at cost. If there is a loss in value that is other than a temporary decline, the investment is written down to its net realizable value.

(f) Depreciation

Depreciation on capital assets is provided for using the straight-line method as follows:

Seismic equipment	7 years
Vehicles	3 - 5 years
Shop, field, office & camp equipment	5 years
Leasehold improvements	5 years

Leasehold improvements are amortized over the term of the lease

(g) Restructuring Costs

Restructuring costs are amortized on a straight-line basis over 5 years.

(h) Flow-through Shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration expenditures, the related income tax deduction may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company. Seismic data and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(i) **Deferred Income Taxes**

The company records income taxes on the tax allocation basis. Under this method, income taxes relating to earnings currently recognized for accounting purposes but deferred for income tax purposes are fully provided. The deferred income taxes so provided result primarily from the recording of depreciation and amortization of capital assets for financial statements purposes in amounts less than those recorded for income tax purposes.

4. Inventory

	1994	1993
Inventory of spare parts	\$ 230,471	\$ 282,179
Work-in-progress	<u>101,145</u>	<u>9,269</u>
	<u>\$ 331,616</u>	<u>\$ 291,448</u>

5. Investments

	1994	1993
Seismic data	\$ 49,905	\$ 121,443
Marketable securities, at cost (market value - \$22,325)	<u>17,000</u>	<u>-</u>
Other	<u>-</u>	<u>10,800</u>
	<u>\$ 66,905</u>	<u>\$ 132,243</u>

6. Capital Assets

	1994			1993		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation (restated)	Net (restated)
Seismic equipment	\$ 6,187,199	\$ 2,603,018	\$ 3,584,181	\$ 3,717,722	\$ 1,939,688	\$ 1,778,034
Vehicles	1,524,181	886,121	638,060	1,033,623	821,332	212,291
Vehicles under a capital lease	555,753	69,719	486,034	-	-	-
Shop, field, office & camp equipment	384,574	185,424	199,150	190,386	159,274	31,112
Leasehold improvements	<u>39,379</u>	<u>6,598</u>	<u>32,781</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,691,086</u>	<u>\$ 3,750,880</u>	<u>\$ 4,940,206</u>	<u>\$ 4,941,731</u>	<u>\$ 2,920,294</u>	<u>\$ 2,021,437</u>

7. Other Assets

	1994	1993
Restructuring costs	\$ 152,697	\$ 105,147
Less: Accumulated amortization	<u>71,341</u>	<u>38,551</u>
	<u>\$ 81,356</u>	<u>\$ 66,596</u>

Restructuring costs include amounts incurred to restructure debt and professional fees incurred to effect the business combination as described in note 1.

8. Bank Indebtedness

	1994	1993
Bank overdraft	\$ 349,480	\$ 133,496
Operating demand loan	<u>1,400,000</u>	<u>600,000</u>
	<u>\$ 1,759,480</u>	<u>\$ 733,496</u>

The company has an operating line of credit in the amount of \$3,500,000 (1993 - \$1,000,000). The loan bears interest at prime plus 1.25% and is secured under the terms as disclosed in note 9.

9. Long-term debt

	1994	1993
Alberta Treasury Branches, demand term loan with monthly payments of \$67,000 including interest at prime plus 2%, subject to renewal October 1994	\$ 1,617,400	\$ 2,238,036
Alberta Treasury Branches, demand term loan with monthly payments of \$8,100 including interest at prime plus 2%, subject of renewal October 1994	206,852	-
Alberta Treasury Branches, demand term loan with monthly payments of \$4,000 including interest at prime plus 2%, subject of renewal October 1994	91,123	-
Finance contracts payable, with varying interest rates between 9% and 10%, with monthly payments of \$31,780 including interest due between November, 1994 and December, 1994, secured by various equipment	<u>148,285</u> <u>2,063,660</u>	<u>104,643</u> <u>2,342,679</u>
Less: Portion due within one year	<u>953,301</u>	<u>646,302</u>
	<u>\$ 1,110,359</u>	<u>\$ 1,696,377</u>

The demand term loans are secured by a registered general security agreement covering all present and after acquired property.

The estimated principal repayments on long-term debt are due as follows assuming the demand term loans are refinanced under similar terms upon maturity:

1995	\$ 953,301
1996	883,024
1997	<u>227,335</u>
	<u>\$ 2,063,660</u>

10. Obligations Under Capital Leases

	1994	1993
Lease vehicle obligations, bearing interest at rates of 9.87 to 20.65%, secured by the lease vehicles and due over various period to June, 1997	\$ 533,675	\$ -
Less: Portion due within one year	<u>133,239</u>	<u>-</u>
	<u>\$ 400,436</u>	<u>\$ -</u>

Total payments of obligations under capital lease are as follows:

1995	\$ 188,952
1996	192,715
1997	<u>259,588</u>
	641,255
Less: Imputed interest	<u>107,580</u>
	<u>\$ 533,675</u>

11. Share Capital

(a) Authorized

Unlimited number of Class A voting shares

Unlimited number of Class B non-voting shares

(b) Issued

	1994		1993	
	Number	Stated Value	Number	Stated Value
Class A shares Balance, beginning of year	1,945,759	\$ 560,700	1,945,759	\$ 560,700
Issued for conversion of debt of PIC [note 11(c)]	1,122,640	-	-	-
Returned to treasury [note 11(c)]	(524,557)	-	-	-
Issued to effect the reverse takeover (note 1)	10,185,052	-	-	-
Issued for cash on exercise of options	20,000	5,000	-	-
Issued for cash pursuant to subscription agreements [note 11(d)]	250,800	165,000	-	-
Reduction in respect of income tax reductions renounced to subscribers	-	(61,455)	-	-
	<u>12,999,694</u>	<u>\$ 669,245</u>	<u>1,945,759</u>	<u>\$ 560,700</u>

- (c) Prior to the reverse takeover, PIC, the legal parent, settled its outstanding debt and outstanding shares held in escrow. Since the acquisition is accounted for as described in note 1, no stated value is assigned to the conversion of debt to shares or escrow shares returned to treasury.
- (d) During the year, the company entered into subscription agreements whereby the company issued 250,800 Class A shares and 82,500 share warrants for total consideration of \$165,000. The share warrants entitle the holder thereof to purchase one Class A share at \$0.75 per share until expiry, December 31, 1994.

In accordance with the terms of the agreements, and pursuant to certain provisions of the Income Tax Act (Canada), the company renounced to the subscribers for income tax purposes, exploration expenditures in the amount of \$138,600.

(e) Stock Options

The company has stock options outstanding as follows:

	Number of Class A Shares	Exercise Price	Date of Expiry
Directors and officers	95,000	\$0.25 per share	December 3, 1998
Employees of Pioneer	460,000	\$0.25 per share	December 3, 1998
Advisors	<u>25,000</u>	\$0.25 per share	December 3, 1998
Total	<u>580,000</u>		

(f) Lease

As part of a lease agreement for seismic equipment entered into by the company, the company has agreed to issue to the lessor 346,667 Class A shares at a deemed price of \$0.75 per share in consideration for an additional \$260,000 lease payment at the expiry of the lease June 30, 1996.

(g) Escrow Shares

The company has a balance of 5,092,526 Class A shares issued on the reverse take-over held in escrow. The escrow shares are releasable, subject to written approval by the Alberta Securities Commission, as follows:

2,546,263	November 1, 1994
2,546,263	May 1, 1995

(h) Net Income Per Share

Net income per share is calculated using the weighted average number of Class A shares outstanding during the year of 12,245,901 (1993 - 10,185,052).

The fully diluted net income per share is anti-dilutive.

(i) Public Offering

Pursuant to an Agency Agreement dated August 12, 1994, the company appointed Canaccord Capital Corporation as agents in respect of a public offering for the issuance of 5,000,000 to 6,000,000 Class A common shares at \$0.55 per share. For this, the company has agreed to pay the agent a commission of 8% of the aggregate gross proceeds from the sale of the class A shares and to reimburse the agent for its expenses, including legal expenses, estimated to be \$25,000. The agent will also be granted an option to purchase up to 15% of the shares issued at \$0.55 per share for a period of eighteen months following the closing of this offering.

In conjunction with this public offering, the company is in the process of negotiating a refinancing package in the amount of \$6,500,000.

The company intends to use the net proceeds from this offering and funds from the refinancing package as follows:

Repay existing long-term debt	\$ 2,200,000
Purchase new equipment	<u>6,800,000</u>
	<u>\$ 9,000,000</u>

Any excess funds will be used as additional working capital.

12. Income Taxes

The provision for income taxes differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates to earnings before income taxes for the year ended July 31, 1993. The difference is due to the utilization of prior years losses not previously recognized in the amount of \$191,484.

13. Change in Accounting Policy

During 1994, the company retroactively adopted a straight-line method of depreciating its capital assets, which were previously depreciated on a declining balance basis. The straight-line method, applied at the rates as indicated in note 3, results in depreciation that better reflects the useful life of the assets and complies with current industry practice.

As a result of this change, the effect on the depreciation expense, deferred taxes, retained earnings (deficit) and net income (loss) per share is summarized as follows:

	1994	1993
Increase in depreciation	\$ 494,331	\$ 443,168
Increase (decrease) deferred taxes	<u>-</u>	<u>(100,247)</u>
Net decrease in net income, increase in net loss, and corresponding decrease in retained earnings and increase in deficit	<u>\$ 494,331</u>	<u>\$ 342,921</u>
Net decrease in net income per share, and increase in net loss per share	<u>\$ 0.040</u>	<u>\$ 0.034</u>

The balance of \$903,610 is applicable to years prior to 1993.

14. Lease Commitment

The company has operating lease payments relating to certain seismic equipment expiring June 30, 1996. The payments for the lease are \$31,500 per month [refer to note 11(f)]. The company also leases its premises with monthly payments of \$3,000 plus occupancy costs expiring July 1, 1999.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

**Corporate
Information**

Directors

Donald J. Good
Calgary, Alberta

Marinus J. Snyders
Calgary, Alberta

Douglas J. Fosbrooke
Calgary, Alberta

Douglas R. Kozan
Calgary, Alberta

Officers

Donald J. Good
President
and C.E.O.

Marinus J. Snyders
Executive Vice-President
and Secretary

Gordon J. Peters, C.A.
Vice-President Finance
and C.F.O.

Head Office

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Alberta Treasury Branches
Calgary, Alberta

Auditors

Collins, Barrow
Calgary, Alberta

Solicitor

Terry Sullivan
Calgary, Alberta

Registrar and Transfer Agent

The R-M Trust Company
Toronto, Ontario
Calgary, Alberta

Stock Exchange listing
Alberta Stock Exchange
Symbol PIO.A



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